

CHAIRMAN'S ADDRESS
APGF 2012 AGM 27 November 2012

Good Morning Ladies and Gentlemen,

This year has again been a most challenging year for your Fund.

Indeed the last five years has been the worst for the property sector in living memory and no property trust or fund has been immune from the effects of the savage write down in value of commercial property.

In the case of our trust several of our investments were acquired in 2007/2008 just before the collapse of Lehmann Bros and the global financial crisis. This caused margins to blow out and made most commercial property unattractive for investors. As values dropped banks became nervous about their security position and changed the covenants accordingly.

Where most listed trusts raised additional capital at huge discounts to reduce debt, your board elected not to take that option but to manage our way through the debt levels we already had negotiated.

The investments we made on behalf of investors were done with a sound strategic intent – quality assets that allowed for some uplift in value and property trusts that were underperforming that could be restructured with financial benefit to APGF.

The board regrets the huge drop in value of the trust's assets but like many other boards we did not foresee the long and protracted drop in commercial property values emanating from the effects from 2008/2009.

The property market segment in which we invest has not improved in 2012 and the bank's lending criteria to those holding property assets or wishing to acquire property has tightened even more over the past twelve months.

The Global economic outlook continues to be dominated by concerns about fiscal and banking challenges facing Europe and to some extent the domestic issues in the United States.

As a net borrower from overseas Australia is not immune from these concerns and therefore our economy mirrors the events in the rest of the world.

Global growth is expected to be subdued for several years to come and this will have a marked effect on Australia.

The Australian economy continues to show moderate growth however it is very patchy with very different results occurring across industry sectors and regions.

Queensland has been a particularly poor performing state and this has been demonstrated by the difficulties facing companies and individuals involved in tourism, property, manufacturing, primary production, and financial services. The only sector doing reasonably well at present is mining and mining services.

The number of corporate and personal bankruptcies in Australia is a record and unfortunately Queensland leads the way.

There are many industry sectors in the Australian Economy undergoing structural reform in response to high commodity prices, the high exchange rate, the introduction of the carbon tax and the dramatic change in consumer spending patterns. Changes will not be quick and are likely to involve many redundancies.

The resources sector continues to remain a key driver of growth in the Australian economy however some economists and resource industry executives are speculating that the peak may have now been reached.

The Federal political scene remains unstable with a minority government remaining in power only with the support of a minority party and independents.

Directors of companies are cautious about investment and have generally shelved expansion plans awaiting certainty about global and domestic issues.

It is with this background the Board believes the commercial and residential property markets will remain subdued for some time.

In the last twelve months high quality commercial office properties have performed relatively well however lesser grade commercial and residential properties have performed poorly and are still facing declining values in certain regions.

During the year under review your Board looked very carefully at the assets owned and managed by the Fund including assessing detailed financial models on potential returns to unit holders. After taking all appropriate advice the Board came to the conclusion it was appropriate to sell certain assets progressively over the next two to three years to provide several liquidity events for unit holders.

It was the Board's view given the uncertainty about global and domestic growth that assets owned or managed by the fund would not increase significantly in value over the next few years and that the time was right to achieve the best possible selling prices commencing during the year under review.

Whilst not experiencing any pressure from our bankers whatsoever the Board's opinion was that it was also more appropriate to be substantially debt free than to continue to renegotiate debt facilities with ever increasing demands for equity contributions.

Consequently the Board decided to sell assets in a gradual and orderly fashion at the highest achievable prices and to extinguish debt as soon as practicable and only after that provide a return to investors.

This strategy has been communicated to unit holders.

Geoff McMahon, our Managing Director, will now address you on more details about our strategy and asset disposals.

Neil Summerson

27 November 2012